

Department of Retirement Systems
Comprehensive Annual Financial Report

Introductory Section

Message from the Director	5
Department of Retirement Systems' Organization	7
Pension System Roles and Responsibilities	8
Letter of Transmittal	17
Certificate of Achievement	22
Overview of Agency Operations	23
1999 Washington State Legislative Actions	26

Washington State
Department of Retirement Systems
Funds of the State of Washington

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 1999

Prepared by the Washington State Department of Retirement Systems

Located at: 6835 Capitol Boulevard • Tumwater, Washington
Mailing address: P.O. Box 48380 • Olympia, Washington 98504-8380

DRS Annual Report contributors include:

Mark Feldhausen	Assistant Director of Administrative Services
Judy Bushell	General Accounting Manager
Pam Hansen	Fiscal Management Analyst
Larry Champine	Editor/Designer
Trina Erickson	Deferred Compensation/Dependent Care Accounting Manager
Kim Prentice	Communications Manager
Steve Nelsen	Legal/Legislative Services Manager

Those contributing from other agencies include:

Larry Risch	Actuarial Statistics Office of the State Actuary
Sam Green	Investment Data State Investment Board
Wendy Jarrett	Office of Financial Management
Richard Heath	Office of the Attorney General

Guiding Principles

1

We will treat our customers and each other with respect, fairness, honesty, and consistency.

2

We will communicate openly and considerately.

3

We will foster a climate in which innovation, initiative, and accountability are expected and supported.

4

We will work with our customers to improve our responsiveness in meeting their needs.

5

We will maximize the use of technology and emphasize user-friendly interface.

Introductory Section

Message from the Director

As we move into the 21st century, the Department of Retirement Systems (DRS) continues to make significant progress to streamline its business operations and effectively respond to the growing needs of its customers.

We are using the “Balanced Scorecard” approach, which focuses on factors that create long-term value. The performance measurements we obtain provide us with a snapshot of how well we are accomplishing our mission and integrates the work we have already completed using quality and strategic planning. It’s also a tool to help achieve Governor Gary Locke’s expectation of managing for results.

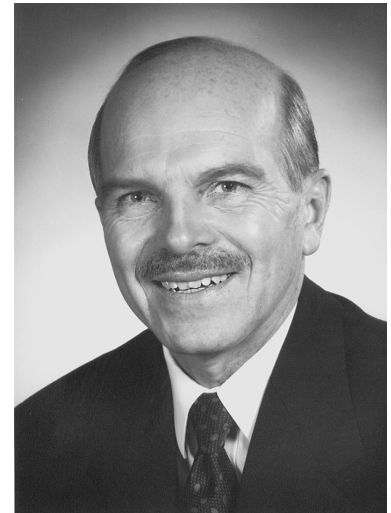
The *1999 Comprehensive Annual Financial Report* is an excellent opportunity for me to provide you – our customers, suppliers and business partners – with a summary of recent DRS activities and accomplishments.

A major accomplishment this past year was the consolidation and successful move of DRS to the Point Plaza West complex in Tumwater. By moving our operations to one facility built to meet our operating needs, we are able to serve our customers more efficiently. All of our services, including the Deferred Compensation Program (DCP), are now located within the same building for the first time.

Improving customer service was our primary goal for selecting a location and planning our move. DRS’ new facility features customer service rooms that allow customers and DRS staff to discuss personal issues privately, improved customer parking, easy access to highways and public transportation, and a larger, more comfortable lobby.

We are using state-of-the-art technology to gear up for a projected 100 percent increase in the number of retirements per year in the next 13 years. We are implementing new projects today that will significantly improve the way we do business in the future.

An agency-wide Electronic Document Imaging Management System set for implementation in spring 2000, will create a digital archive of over 850,000 member paper files maintained by DRS. It will also allow more efficient, less paper-oriented operating processes.



John F. Charles

Through the DRS Web site, customers can access information 24 hours a day. Some of the improvements we have made on the site are a direct response to customer feedback. We also redesigned the DRS home page to compliment the state’s Web portal *Access Washington*.

An online retirement benefit estimator, a calculating tool that enables Public Employees’ Retirement System (PERS) Plan 2 members to create a self-estimate of their retirement benefits via the DRS Web site, was implemented in June. Online estimators will be designed for the other retirement systems and plans in succeeding quarters.

The site also offers Internet access to all the retirement member handbooks, active member and retiree publications and forms, employer information, retirement-related legislation, and information on the Deferred Compensation and Dependent Care Assistance programs.

DRS is also in the process of implementing the new School Employees’ Retirement System (SERS). This unique retirement system was created by the legislature and

signed into law by Governor Locke in 1998. All eligible PERS 2 members working for school districts or educational service districts will automatically transfer into SERS 2 beginning September 1, 2000. SERS 2 members have the choice of transferring to SERS 3 or staying in SERS 2. All new classified employees will join SERS 3.

As we continue to embrace new ways of doing business, it is very important to recognize our business partners. DRS cannot carry out its responsibilities without effective, working relationships. We rely on our primary suppliers—the employers whose employees we serve—to provide us with member data. We also depend on the DRS Advisory Committee, the Employer Advisory Committee, and the Employee Retirement Benefits Board for their guidance and support.

DRS has made substantial project progress with two of Governor Locke's executive orders - quality improvement and regulatory reform. In fiscal year 1999, DRS submitted 20 quality projects in addition to the projects mentioned earlier. We saved over \$200,000 and 8,900 staff hours. Our Receivables Management project is a good example.

DRS employees designed and implemented a new Receivables Management System to better support DRS' processes for managing receivables. The improvements include:

- Better access to current data for DRS staff and employers who report to the department.
- More consistent receivable processing.
- Lower operating costs.
- Additional interest and earnings to the pension trust fund.

The new system saves approximately \$60,000 and over 2,400 hours of staff time annually.

Our agency's regulatory improvement project has allowed DRS to abolish unnecessary rules and to rewrite its rules so customers can easily understand them. To date, DRS has reviewed 243 rules and 74 of those have been amended and 34 have been repealed.

DRS is very proud of its quality accomplishments in the past year. In our offices, we display the Certificate of Achievement for Excellence in Financial Reporting awarded by the Government Finance Officers Association of the United States and Canada for the last five consecutive years.

In comparison to its peer retirement systems, the state of Washington's retirement system functions cost effectively. DRS' 1998 annual administrative expense per member was found to be 33 percent below the average of its peer state retirement systems at \$39 per member.

Under Governor Locke's leadership, the State of Washington has placed a strong emphasis on preparing all of its necessary systems and operations for a smooth transition into the year 2000. DRS' mission-critical systems have been Y2K certified in an independent assessment, and we anticipate business as usual in January 2000.

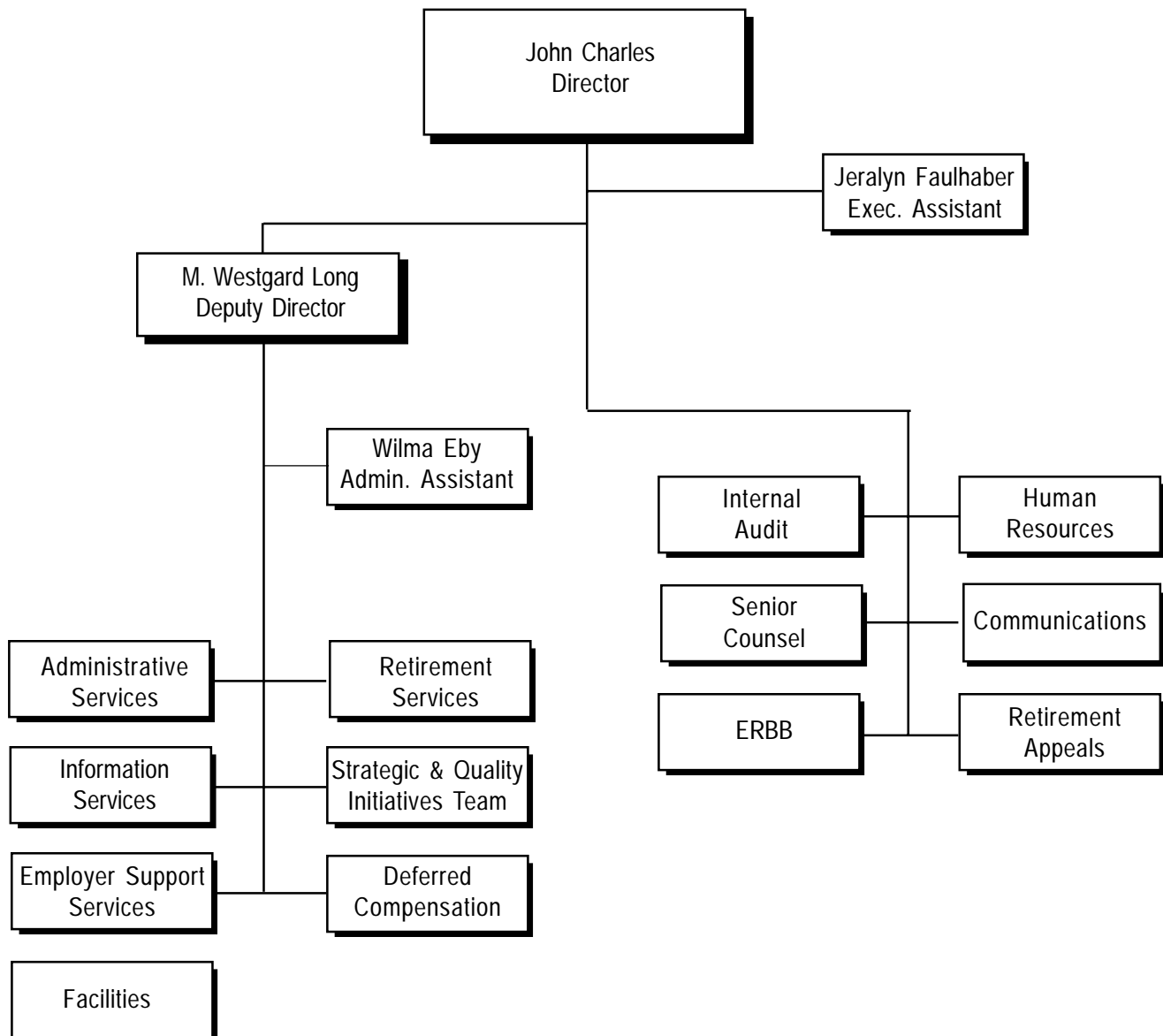
The accomplishments just mentioned do not include the steady, day-to-day services DRS staff provide to customers. We process approximately 750,000 member transactions a month. Our employees have done an outstanding job serving customers and improving agency operations. DRS sent out 12,785 customer surveys last year and received nearly 5,000 responses. Over 87 percent of the respondents gave an excellent satisfaction rating for overall quality of DRS services.

Our "managing for results" attitude and our positive working relations, internally and externally, allow DRS employees to provide quality services to our customers, which generates confidence in our integrity, efficiency, fairness and financial responsibility. We at DRS look forward to serving our customers in the new millennium.

Year 2000 Readiness Disclosure

Department of Retirement Systems' Organization

June 1999



Pension System Roles and Responsibilities

Department of Retirement Systems (DRS)

Collects and accounts for employer and employee contributions; adopts pension contribution rates for PERS, TRS and LEOFF Plan 2 employees and Plan 2 and 3 employers; maintains retirement records; pays benefits; communicates pension information; and administers the Deferred Compensation and Dependent Care Assistance Programs.

The governor appoints the director of DRS.

P.O. Box 48380, Olympia, WA 98504-8380

Telephone: (360) 664-7000, in Olympia, or toll-free at 1-800-547-6657

Web site: www.wa.gov/DRS/drs.html

Legislative Fiscal Committees

Review and report on retirement bills to the full legislature.

The legislative fiscal committees are the House Appropriations Committee and the Senate Ways and Means Committee.

House Appropriations Committee

P.O. Box 40600 Olympia WA 98504-0600

Telephone: (360) 786-7573 or toll-free 1-800-562-6000

(Legislative Hotline)

Web site: www.leg.wa.gov

Senate Ways and Means Committee

P.O. Box 40482, Olympia, WA 98504-0482

Telephone: (360) 786-7715 or toll-free 1-800-562-6000

(Legislative Hotline)

Web site: www.leg.wa.gov

Joint Committee On Pension Policy

Studies pension issues and retirement finances. Develops pension policies and recommends pension legislation.

The Joint Committee on Pension Policy is a bipartisan standing legislative committee composed of eight senators and eight representatives.

Committee Membership

(June 30, 1999)

Senators

Albert Bauer
Rosa Franklin
Karen Fraser
Jim Honeyford
Ken Jacobsen
Jeanine Long
Dino Rossi
Shirley Winsley

Representatives

Gary Alexander, Co-Chair
Don Carlson
Steve Conway
Jerome Delvin
Mark Doumit
Kathy Lambert
Helen Sommers, Co-Chair
Cathy Wolfe

P.O.Box 40914, Olympia, WA 98504-0914
Telephone: (360) 753-9144

Pension Funding Council

Adopts economic assumptions for pension funding and employer pension contribution rates for PERS and TRS Plan 1, LEOFF Plan 1 (state) and WSPRS.

Membership consists of the directors of DRS and Office of Financial Management, and the Chairs and Ranking Minority Members of the Senate Ways and Means Committee and House Appropriations Committees.

Council Membership

John Charles—Director, Department of Retirement Systems, Chairperson
Dick Thompson—Director, Office of Financial Management
Senator Valoria Loveland—Chair, Ways and Means Committee
Senator Dino Rossi—Ranking minority member, Ways and Means Committee
Representative Tom Huff—Co-chair and ranking member, Appropriations Committee
Representative Helen Sommers—Co-chair and ranking member, Appropriations Committee

Can be contacted through DRS. See information on preceding page.

Office of Financial Management

Advises the governor on pension and funding policies and issues.

The governor appoints the director of OFM.

P. O. Box 43113, Olympia, WA 98504-3113

Telephone: (360) 902-0555

Web site: www.ofm.wa.gov

State Investment Board

Invests and accounts for pension funds. The Board consists of nine voting members as follows:

Membership consists of the director of DRS; the state treasurer; director of Department of Labor and Industries; a state senator; a state representative; an active member of PERS, LEOFF and TRS; and a retired member of one of the six systems.

Board of Trustees

(Voting Members, June 30, 1999)

John F. Charles Director, Department of Retirement Systems	Gary Moore, Vice-Chair Director, Department of Labor and Industries
Tom Morris Representative of TRS	Senator Sid Snyder
Patrick McElligott, Representative of LEOFF	Representative Tom Huff
Michael J. Murphy, State Treasurer	Beverly Hermanson Representative of PERS
	George Masten, Chair Representative of Retired Members

Board of Trustees

(Nonvoting Members, June 30, 1999)

Robert S. Nakahara Advanced Research Systems	Henry James	Charles A. Kaminski, CFA G.E. Financial Assurance
Jerome Mathews Kidder, Mathews, and Segner Inc.	Paula Treneer Madrona Partners	

P.O. Box 40916, Olympia, WA 98504-0916

Telephone: (360) 664-8900

Web site: www.wa.gov/SIB

Office of the State Actuary

Acts as an advisory agency to the legislature and director of DRS. Performs actuarial studies and reports on retirement bills. Creates formulas used to compute benefit payment adjustments that are based on early retirement, cost-of-living or long-term survivor benefits.

The State Actuary is appointed by the Joint Committee on Pension Policy.

P.O. Box 40914, Olympia, WA 98504-0914

Telephone: (360) 753-9144

Employee Retirement Benefits Board

Provides advice to the State Investment Board on self-directed investment options for Plan 3; determines the payment options available for Plan 3 members; approves administrative charges assessed to members who participate in self-directed investment options; and provides advice on investment options for the Deferred Compensation Program. Board members are appointed by the governor. As of June 30, 1999, the board members were:

Board Chairperson

- John F. Charles—Director, Department of Retirement Systems

Representing experience in defined contribution plan administration:

- Jan Twardowski—President, Frank Russell Securities, Inc.
- Vacant

Representing Public Employees' Retirement System members:

- Dr. Robert Lenigan—Psychologist/Program Coordinator,
Western State Hospital
- Amos Atkinson, Jr.—Regional Service Manager, Labor & Industries
- Gloria Champeaux—Retired

Representing Teachers' Retirement System members:

- Thomas Reardon—Teacher, Endeavor Intermediate, Milton, WA
- Sharon Jayne—Principal, Greenacres Jr. High School, Greenacres, WA.
- Nancy Elves—Retired

Representing School Employees' Retirement System members:

- Kathy Whitlock—Purchasing Agent, Bethel School District
- Virginia "Gini" Drummond—Personnel Report Technician, Tacoma School District
- Marian Harrison—Retired

Can be contacted through DRS. See information on page 12.

DRS Advisory Committee

Serves in an advisory role to the director of DRS on retirement administrative issues. Advisory Committee membership is distributed in the following manner:

The committee consists of 12 members representing active and retired members of the retirement systems administered by DRS.

Committee Membership
(June 30, 1999)

PERS

Thomas Curtis
Active

John I. Payne
Active

Mary L. Sherman
Active

Marian L. Harrison
Retired

LEOFF

Dick Hybak
Active
(law enforcement officer)

Patrick McElligott
Active
(firefighter)

James Q. King
Retired

TRS

Thomas F. Bettis
Active
(administrator)

James Carroll
Active
(teacher)

Nancy Batcheller
Retired

WSPRS

Vacant

JRS

Judge Patricia Aitken
Active

Can be contacted through DRS. See information on page 12.

Letter of Transmittal



STATE OF WASHINGTON
DEPARTMENT OF RETIREMENT SYSTEMS

P.O. Box 48380 • Olympia, Washington 98504-8380

December 21, 1999

The Honorable Gary Locke
Governor, State of Washington

Representative Gary Alexander
Co-Chair, Joint Committee on Pension Policy

Representative Helen Sommers
Co-Chair, Joint Committee on Pension Policy

Lieutenant Governor Brad Owen
President, Washington State Senate

Representative Clyde Ballard
Co-Speaker, Washington State House of Representatives

Representative Frank Chopp
Co-Speaker, Washington State House of Representatives

We are pleased to present to you the Department of Retirement Systems' Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 1999. This CAFR is designed to comply with the requirements of chapters 41.50.050(4) RCW, 41.50.780(9) RCW, and 41.04.630(2) RCW.

Responsibility for the accuracy of the data and the fairness and completeness of this presentation, including all disclosures, rests with the Department of Retirement Systems (DRS). To the best of our knowledge, the enclosed data is accurate in all material respects and is reported in a manner designed to provide a fair representation of the financial position and results of the operations of the department.

This report consists of five sections:

- (1) The Introductory Section, which contains a message from the Director of DRS, this letter of transmittal, and information about the agency's administrative structure and operations;
- (2) The Financial Section, which contains the report of the State Auditor, the financial statements, the notes to the

financial statements, required supplementary information, and additional financial information;

- (3) The Investment Section, which contains the report of the State Investment Board, investment policies, results, associated fees and commissions, and additional investment information;
- (4) The Actuarial Section, which contains the report of the State Actuary, a summary of actuarial assumptions and methods, and actuarial schedules and data; and
- (5) The Statistical Section, which contains significant data pertaining to the retirement systems.

Agency Description and History

DRS administers six statewide public employee retirement systems, which are comprised of nine defined benefit pension plans and one defined contribution plan. The purpose of DRS is to administer pension plan coverage for state employees, teachers and classified educational employees, law enforcement officers and firefighters, and other employees of participating political subdivisions. As of June 30, 1999, there were 1,244 covered employers participating in multiple

systems and/or plans administered by DRS. The eligibility requirements and provisions of each plan can be found in Note 1 of the Notes to the Financial Statements. On July 1, 1996, DRS began administering Teachers' Retirement System Plan 3, which combines a defined benefit portion funded by employers with a defined contribution portion funded by members. The plan allows members to direct the investment of the defined contribution portion of their retirement funds. Additionally, on July 1, 1996, DRS began to administer a deferred compensation program, a dependent care reimbursement program, and a program of investment services for judges with funds in the Judicial Retirement Account.

The Washington State Legislature created the Department of Retirement Systems in 1976 to administer the Public Employees' (PERS), Teachers' (TRS), Law Enforcement Officers' and Fire Fighters' (LEOFF), Washington State Patrol (WSPRS), and Judicial retirement systems (JRS), and the Judges' Retirement Fund (Judges).

Significant events in DRS history are listed below.

1930s, 1940s	The PERS, TRS, WSPRS, Judges and many local police and firefighters' retirement systems were created.
1950s, 1960s	Independent administration of individual retirement systems continued.
1960s, 1970s	Local police and firefighters' retirement systems were consolidated into LEOFF.
1976	The Department of Retirement Systems was created to administer state retirement systems. The Office of the State Actuary was created to provide pension cost estimates.
1977	PERS Plan 2, TRS Plan 2, and LEOFF Plan 2 were created.
1981	The State Investment Board was created to handle investment of all state trust funds.
1987	The Joint Committee on Pension Policy was created.
1995	TRS Plan 3 was created effective July 1, 1996.
1996	The state Deferred Compensation and Dependent Care programs were transferred to DRS.

Economic Condition and Outlook

The following report is condensed from the Economic Condition and Outlook section of the State of Washington's 1999 Comprehensive Annual Financial Report prepared by the Office of Financial Management.

Fiscal Year 1999 proved to be another strong year for Washington State's economy. Employment grew by 2.6 percent, more than a percentage point below employment growth in Fiscal Years 1997 and 1998, but real personal income grew at a faster rate than any other fiscal year in this decade. However, Fiscal Year 1999 marks a turning point in the state's economy. Both employment growth and real personal income growth are predicted to slow substantially, falling to rates much closer to U.S. growth rates. The slowdown in the state's economy is expected to reduce the growth rate of General Fund-State revenues significantly in the 1999-2001 Biennium.

Economic Condition in Fiscal Year 1999

Washington's wage and salary employment increased faster than US wage and salary employment for the third year in a row, with a growth rate of 2.6 percent in Fiscal Year 1999, compared to 2.3 percent for the nation as a whole. This is significantly less than the 3.8 percent growth in Washington's wage and salary employment in Fiscal Year 1998. Despite the deceleration in employment growth, almost 67,000 new jobs were added in Washington State in Fiscal Year 1999.

Although the wage and salary employment growth rates of the state and nation moved to very similar levels during Fiscal Year 1999, personal income in Washington grew by 7.2 percent compared to the national growth of 5.0 percent. Real per capita income rose by 6.2 percent over the same period, as compared to 4.0 percent for the nation as a whole.

Economic Outlook

Despite the strong economic performance of the last three years at the national and state levels, the state forecast for the next two fiscal years is tempered by the expectation of a stock market correction, higher oil prices and the continued decline in aerospace employment. According to the November 1999 forecast by the state Economic and Revenue Forecast Council (ERFC), growth in Washington's wage and salary employment is expected to fall to 1.4 percent in Fiscal

Year 2000, then increase slightly to 1.5 percent in Fiscal Year 2001. Washington's employment growth is expected to fall to levels closer to national employment growth projections of 2.0 percent growth in Fiscal Year 2000 and 1.5 percent in Fiscal Year 2001, rather than remaining significantly above the national growth rates as in the last three years.

Personal income growth in Washington State is expected to slow until it reaches the national average for those years. The ERFC economic forecast indicates that personal income in Washington will grow by 6.2 percent in Fiscal Year 2000, and 4.4 percent in Fiscal Year 2001. This compares nationwide projections of 5.3 percent and 4.6 percent growth in personal income for those respective years.

General Fund-State Revenues

General Fund-State revenues for the 1999-2001 Biennium are forecast to be \$20.7 billion, an increase of 5.6 percent in nominal terms over the previous biennium. General Fund-State revenues increased by 11.2 percent in the 1997-99 Biennium. The revenue growth rate for the 1999-2001 Biennium is relatively slow by historical standards, due primarily to the effects of five consecutive years of significant tax reductions and the slowing state economy. The reduction in aerospace employment is a major contributor to the general slowing in the state economy. The General Fund-State revenue growth rate for the 1999-2001 Biennium will be the smallest growth rate for any biennium covering the 1990s in the current forecast.

Based on the November revenue forecast, Washington will have an estimated reserve of \$1,215.9 million by the end of the 1999-2001 Biennium, up from \$997.7 million in the previous biennium.

Financial Information

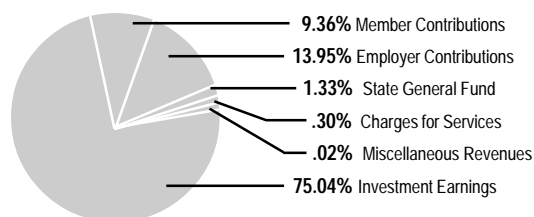
Accounting System and Internal Control

This report has been prepared to conform with the principles of accounting and reporting established by the Governmental Accounting Standards Board and by the American Institute of Certified Public Accountants. Specific accounting treatments are detailed in the Notes to the Financial Statements found in the Financial Section of this report.

Management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the government are protected from loss, theft, or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management. In addition, budgetary controls are maintained by the Office of Financial Management and the Washington State Legislature.

Pension Trust Fund Revenues

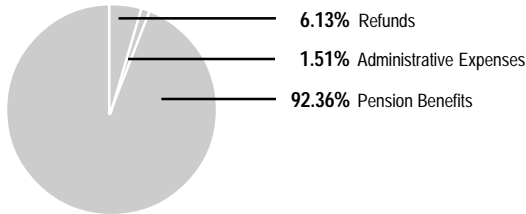
The primary sources of revenue for the retirement trust funds include contributions from employers, active system members, the state General Fund, and investment earnings. Total trust fund revenues for Fiscal Year 1999 amounted to \$6,041.6 million, a decrease of \$751.5 million from Fiscal Year 1998. The decline in revenues was due primarily to a decline in investment earnings from \$5,346.8 in Fiscal Year 1998 to \$4,533.7 in Fiscal Year 1999. Fiscal Year 1999 member contributions and restorations totaled \$565.7 million, employer contributions totaled \$842.6 million, state General Fund contributions totaled \$80.3 million, charges for services totaled \$17.8 million, and there were \$1.5 million of miscellaneous revenues.



Pension Trust Fund Expenses

The primary trust fund expenses of the retirement systems include the payment of benefits to retirees and beneficiaries, the refund of contributions to former members, and the cost of administering the retirement systems. Trust fund expenses for Fiscal Year 1999 totaled \$1,492.4 million, an in-

crease of \$119.2 million over Fiscal Year 1998. Benefit payments to members including pension and annuity benefits totaled \$1,378.4 million. Refunds totaled \$91.4 million. Administrative expenses for Fiscal year 1999 totaled \$22.6 million. Expenses for the management of trust funds are incurred by the State Investment Board and funded from earnings on investments.



Funding

Valuations are performed for most DRS-administered retirement systems on a calendar year (January 1-December 31) basis; however, TRS valuations are performed on a fiscal year (July 1 - June 30) basis.

The actuarial value of assets available as of the latest actuarial date for all systems was \$36,038 million. The accrued liability is \$38,845 million. The accrued liability exceeds the net actuarial value of assets available for benefits by \$2,807 million.

The ratio of assets to liabilities is 93 percent compared to 88 percent last year. Current contribution rates remain in keeping with the goal of attaining a funding ratio of 100 percent by the amortization dates applicable to each plan (June 30, 2024, or earlier), as required by chapter 41.45 RCW.

These calculations, prepared by the Office of the State Actuary, reflect the latest valuation results.

Investments

The State Investment Board (SIB) has sole authority and responsibility for the investment of all state and local pension fund assets. The enabling statute requires the SIB to “. . . establish investment policies and procedures designed exclusively to maximize return at a prudent level of risk.” The policies adopted by the SIB include provisions for the set-

ting of strategic asset allocation objectives, as well as strategies and return objectives for individual asset classes. A summary of the asset allocation can be found in the Investment Section of this report. For fiscal year 1999, the commingled trust fund (CTF) investments provided a 11.90 percent rate of return. The CTF annualized rate of return over the last three years was 16.66 percent and 16.12 percent over the last five years. The day-to-day management of pension fund assets is the responsibility of SIB staff. Further investment information is included in the Investment Section of this report.

Other Information

Departmental Initiatives

The department’s activities are highlighted in the Introductory Section of this report under the heading “Overview of Agency Operations.”

Independent Audit

Pursuant to chapter 43.09.310 RCW, an annual independent audit was performed. The Washington State Department of Retirement Systems was included in the scope of this audit. The Washington State Auditor’s Office performed the audit, which in addition to meeting the requirements of state statutes, was also designed to meet the requirements of the Single Audit Act of 1984 and related Circular A-133. The auditor’s report on our general purpose financial statements is included in the Financial Section of this report.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to DRS for its comprehensive annual financial report for the fiscal year ended June 30, 1998. This was the fifth consecutive year that DRS has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

This report was made possible by the staff of DRS based in part on information provided by the Office of the State Actuary, the Office of Financial Management, and the State Investment Board. Each member of these agencies has our sincere appreciation for the contributions made in the preparation of this report. The report will be provided to the Governor, the members of the Joint Committee on Pension Policy, the members of the DRS State Advisory Committee, and other interested parties.

This report is intended to provide complete and reliable information that can be used to make management decisions, determine compliance with legal provisions, and evaluate responsible stewardship of DRS-administered retirement system funds.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'John F. Charles', with a long horizontal stroke extending to the right.

John F. Charles,
Director

Certificate of Achievement

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Washington State Department of Retirement Systems

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 1998

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Cary Bruebach
President
Jeffrey L. Esser
Executive Director

Overview of Agency Operations

During the past fiscal year, DRS concluded several major projects including the consolidation of its facilities into a single new building, certification of its computer systems as 2000 ready, and the implementation of a new automated receivables management system. The agency also began work on a new retirement plan and an electronic document imaging system. A number of quality initiatives were also successfully completed.

Agency moves under one roof

In January 1999, DRS moved from four buildings in three locations to a single, new building. This facility consolidation:

- Enables customers to complete both their retirement and deferred compensation business in one stop.
- Provides private customer counseling rooms. Previously appointments were held in open cubicles.
- Allows agency telephone and 24-hour voice mail service to be provided in a single system featuring improved call tracking and analysis, automatic direction of members calls through menu options, and reduced annual costs.
- Saves over \$77,000 annually in costs for leasing, custodial services, electricity and communications lines between buildings.
- Eliminates an estimated 700 faxes and 12,000 trips between buildings by staff annually.
- Improves communication among staff.

DRS systems certified ready for 2000

All of DRS' major computer systems were certified Year 2000 (Y2K) compliant as of June 30, 1999. DRS systems successfully passed a series of assessments conducted by independent evaluators. With the certification of these systems and the completion of the agency's contingency and business resumption plans, DRS is confident it will be able to provide uninterrupted service during the transition from 1999 to 2000 and beyond. A more detailed description of DRS' Y2K preparations can be found in Note 2-J of the Notes to the Financial Statements.

YEAR 2000 READINESS DISCLOSURE

School Employees' Retirement System (SERS) Project moves forward

A project team began the work necessary to implement SERS, a combined defined benefit/defined contribution plan

similar to TRS 3. Approximately 44,000 classified personnel employed by school districts and Educational Service Districts will transfer from PERS to SERS Plan 2 on September 1, 2000. At that time they will be given the option of transferring to SERS Plan 3. Classified personnel hired after September 1, will automatically become SERS Plan 3 members.

DRS has created a newsletter, a web site, and a telephone information line for prospective SERS members. DRS will contract with outside providers for transfer education, investment education, and record keeping.

Electronic Document Image Management System (EDIMS) moves toward implementation

EDIMS will:

- Provide improved, cost effective access, storage and sharing of agency data;
- Improve agency data security and disaster recovery capabilities;
- Automate selected procedures and decision making processes; and
- Reduce overall processing time.

The EDIMS project team selected a document imaging system, gained approval for its acquisition plan and issued an RFP to acquire hardware and software. Additionally, the team began work on a forms management system.

Agency eliminates rules, simplifies others

DRS' regulatory improvement project has allowed DRS to abolish unnecessary rules and to rewrite others so customers can easily understand them. To date, DRS has reviewed 243 rules, of which, 74 have been amended and 34 repealed.

DRS and partners lead the way with online data reporting

DRS undertook a successful pilot project in partnership with the Department of Information Services that allowed the transfer of member information from an employer to DRS using the Internet and digital signatures.

DRS tested its ability to extend this service to non-local employers outside of the state government Internet fire wall when Western Washington University successfully used an enhanced version of the technology to submit and update employer transaction data. Once the technology is available on a production basis, it has the potential to enhance critical business processes at many state and local government agencies.

DRS ranks high in efficiency

Using the Government Finance Officers Association's extensive database of public retirement systems, DRS identified seven government retirement systems similar to itself and compared the efficiency of its service delivery to the seven peer systems. The comparison showed that:

- DRS' 1998 annual expense per member (administrative cost) was 33 percent lower than the average of its peers.
- DRS reduced its annual expense per member by 13 percent in 1998.

DRS will continue to evaluate its cost-efficiency, as compared to its peer systems.

Agency builds new receivables management system

DRS implemented a new Receivables Management System which is Year 2000 compliant, and fully integrated with existing DRS systems. The new system improves access to current data for DRS staff and for employers who report to the department, provides consistent receivables processing and lowers operating costs. Additionally, the new system:

- Saves over 2,000 hours of staff time annually through the automation or elimination of processes formerly performed manually.
- Provides improved tracking of overdue receivables and the fair assessment of interest.

DRS expands service to members via the Internet

The agency upgraded the appearance and organization of its Internet site and added new features that include:

- An online benefit estimator that allows PERS Plan 2 members to receive an estimate of their future retirement benefit based on information they provide about their estimated age, salary, and years of service at retirement. Estimators for other systems and plans will be added.
- Deferred Compensation forms that members can complete, print out, sign, and mail in. Online delivery makes forms immediately available 24 hours a day and reduces errors through increased legibility of completed forms.
- A daily listing of the net asset value for each option in the Deferred Compensation Program. The listing is convenient for program participants, and saves staff time previously spent providing this information to participants over the telephone.

Quality projects increase efficiency and customer service

DRS continually examines its business processes to improve customer service and use its resources efficiently. Improvements were made in the following areas:

- **Direct Deposit Made Easy:** DRS simplified the form retirees use to have their retirement benefits deposited directly into their bank accounts. DRS shortened the narrative, introduced an easy-to-read format, changed the form from triplicate to a single page and eliminated the notarization requirement.
- **Actuarial Edit Reports:** The Office of the State Actuary (OSA) predicts future liabilities to the retirement trust funds based on demographic and financial data supplied by DRS. DRS devised methods for detecting and correcting errors that significantly reduced errors and omissions. The data DRS now submits to the Actuary is 99.85 percent error-free.
- **Dissolution Correspondence:** The agency created new brochures for members and their attorneys during the division of benefits due to the dissolution of a marriage. The brochures consolidate current information from many sources, and present it in an easy to use format.

Early Edits Eliminate Errors: Errors in member data reported to DRS by employers each month can cause the agency's Employer Information System (EIS) to reject the faulty data during processing, forcing staff to spend time correcting the errors. By identifying the most common problems leading to data rejection and programming EIS to identify faulty data before processing, DRS reduced the amount of staff time spent correcting errors by 66 percent.

LEOFF COLA: DRS significantly improved the process it uses to produce accurate and timely “Comparison of Benefits” letters, which inform employers of annual cost of living adjustments (COLA) to retiree benefits. The new process:

- Produced COLA calculations for 8,225 LEOFF benefit recipients and beneficiaries that were confirmed 100 percent accurate;
- Reduces the number of letters produced and mailed; and
- Reduces processing time for DRS and employers by 40 percent.

The system enhancements that provided the 100 percent reconciliation were also applied to the processing of COLAs in DRS' eight other retirement system COLA processes.

1999 Washington State Legislative Actions

The 1999 Washington State Legislature enacted the following significant changes in retirement law.

TRS 1 and PERS 1 members have option for refund of contributions after 30 years of service

Part 1: PERS and TRS Plan 1 members with thirty years of service may make an irrevocable choice to receive, at retirement, a refund of member contributions made after 30 years of service plus interest at 7.5 percent.

Members who choose this option will receive a benefit based on their highest two years of compensation earned prior to electing to take the refund. Any eligible cash-outs of leave at retirement will be included in the compensation used to calculate the retirement allowance.

To qualify for the refund, a member must either:

- Submit a written election within six months of attaining 30 years of service; or
- Submit written election by December 31, 1999, if a member already has 30 years or more of service accumulated on July 25, 1999.

The election will not be retroactive. The refund will apply only to future contributions. DRS will notify all qualifying members by mail.

Part 2: PERS Plan 1 retirees who receive state-funded long-term care will not be eligible for the "pop-up" benefit if the increase makes the retiree ineligible for the services.

Death benefits under LEOFF Plan 1 clarified

The legislature clarified its intent that LEOFF 1 survivor benefits are in the nature of workers' compensation in the event of:

- A member's duty-connected death, or
- A member's death while on duty-connected disability leave or retired for duty-connected disability.

The legislature established a separate section in LEOFF 1 law for survivor benefits resulting from non-duty connected causes.

TRS 3 Gain Sharing Expanded

TRS 2 members who transferred to TRS 3 on or after Sept. 1, 1997, and before Feb. 1, 1998, and meet the requirements passed in the original gain sharing law are eligible to receive the July 1998 gain sharing payment. Gain sharing payments are credited to member accounts in even-numbered years when the retirement fund has a four-year earning average in excess of 10 percent.

The payment is based on a member's service credit total as of August 31, 1997. The payment was credited to eligible TRS Plan 3 defined contribution accounts in early June and will appear in members' second quarter shares statement.

DRS will notify all qualifying members by mail.

Retired teachers and principals can extend service as substitute teachers or principals

A TRS 1 retired teacher may now work longer as an on call substitute teacher without reduction of pension benefits. In addition to the 525 hours already allowed for substitute teaching, extended on call substitute hours were increased from 105 to 315 per school year. The substitute teaching must occur in a school district that has filed a resolution stating the services of retired teachers are required due to a shortage of qualified substitutes.

Similarly, the bill raises the number of hours in a year a retired principal may serve as a substitute principal without reduction of pension benefits. The total additional service a substitute principal can work is raised from 105 hours per year to 315.

Other administrator positions remain at an additional 105 hours with a resolution.

LEOFF 2 disability rules changed

LEOFF Plan 2 members whose disability retirement allowance is canceled, who are not eligible for service retirement, and who do not return to service will now be paid the excess, if any, of their accumulated contributions at the time of retirement. Payments received during the period of disability will be deducted from accumulated contributions. This refund provision applies to anyone who retired for disability on or after Feb. 1, 1990.

State Patrol minimum benefit and survivor benefit increased

This bill enhances WSPRS benefits as follows:

- Provides an annual increase in the WSPRS minimum retirement benefit amount. It will increase in July 1999, by 77 cents per month for each year of service. This annual increase amount will be raised by three percent and applied to the minimum each year thereafter.
- Provides surviving spouses with a cost of living adjustment (COLA) on their benefits. On July 1, 1999, and annually thereafter, the surviving spouse's monthly benefit will increase by the "Uniform COLA." To be eligible, a surviving spouse must be at least age 66 by July 1 of the year in which the increase is paid.
- WSPRS members will have a joint-and-100 percent survivor benefit option in lieu of current survivor benefits by July 1, 2000. Members who select this option will receive an actuarially reduced benefit.

PERS Members allowed to remain in employer 401 plans

Employees can now participate in employer-operated defined contribution plans qualified under Section 401 of the Internal Revenue Code at the same time they are PERS members.

The law also clearly requires that if a unit of government becomes a PERS employer, it must include all eligible employees in PERS, and may not thereafter withdraw from PERS.

Definition of "veteran" altered

PERS 1 members who performed military service prior to becoming retirement system members are often eligible to receive retirement service credit for their military service. Among those classified as veterans are certain merchant mariners and civil service crew members. The new state definition of veteran requires that this service was to have been performed between December 7, 1941 and December 31, 1946.

PERS membership optional for the chief administrative officer of a public utility district, port district or a county

PERS membership is now optional for the chief administrative officer (CAO) of a public utility district (PUD), port district or county.

State Investment Board (SIB) will set monthly unit valuations

This new law specifies that the SIB will declare a monthly unit value for the Total Allocation Portfolio (TAP) investment option for Plan 3 members. This has been the valuation practice for TAP since the inception of Plan 3. The legislation clarifies the valuation practice and does not hold the SIB or DRS liable for any loss or deficiency as a result of the valuations.

Deductions from retirement allowances for charitable purposes authorized

PERS retirees may designate an amount to be deducted from their monthly retirement benefit for payment to the United Fund.